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bühler

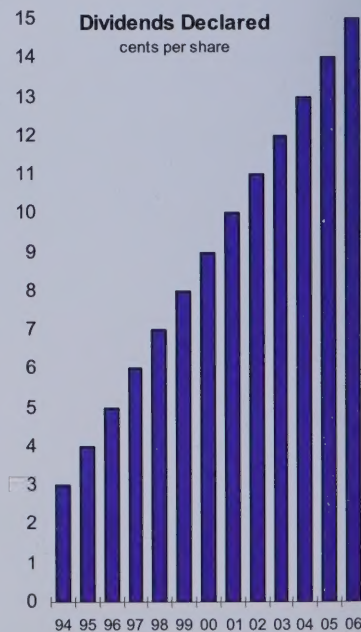
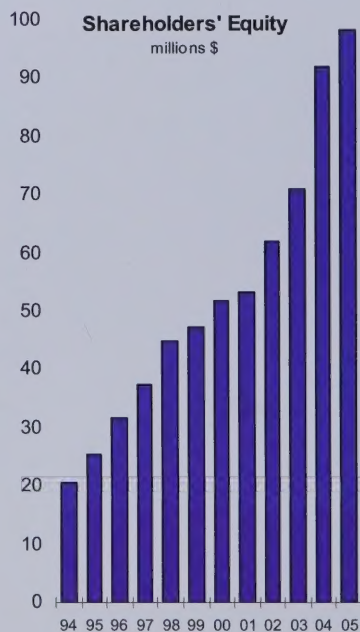
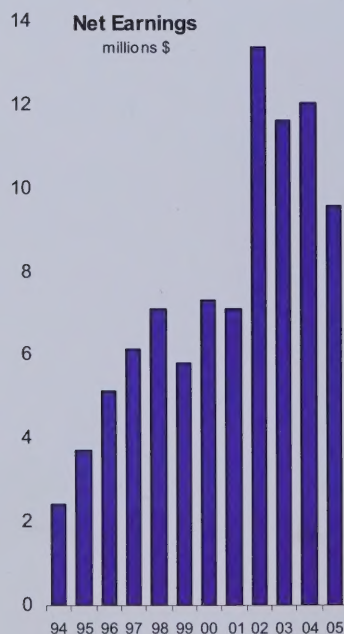
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Annual Report  
2005

# Ten Year Highlights

*In thousands of Canadian dollars (except per share amounts)*

Year ended Sept. 30	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Revenue	66,517	85,375	89,194	79,961	116,700	187,633	232,619	181,162	206,130	<b>202,319</b>
Gross profit	21,288	27,060	29,243	26,207	30,302	31,410	49,485	41,233	37,601	<b>37,044</b>
EBITDA	11,709	15,668	17,595	14,488	15,882	14,518	26,202	21,874	20,040	<b>17,282</b>
Income from operations	12,207	16,313	17,420	14,943	16,789	16,527	29,727	25,098	21,311	<b>20,838</b>
As percentage of revenue	18%	19%	20%	19%	14%	9%	13%	14%	10%	<b>10%</b>
Shareholders equity	31,811	37,497	44,790	47,327	51,659	53,442	61,998	70,868	92,047	<b>98,113</b>
Capital expenditures-net	9,552	12,253	5,917	5,960	17,278	3,593	14,546	7,854	4,470	<b>7,515</b>
Number of employees	525	600	600	600	1,000	700	800	820	850	<b>850</b>
Earnings per share	0.22	0.26	0.29	0.24	0.30	0.30	0.58	0.51	0.50	<b>0.38</b>
Book value per share	1.38	1.57	1.80	1.93	2.13	2.27	2.70	3.08	3.78	<b>3.92</b>
Avg shares issued (millions)	23.0	23.9	24.9	24.5	24.2	23.5	23.0	23.0	24.3	<b>25.0</b>
Return on average capital	19%	24%	26%	18%	14%	8%	18%	13%	12%	<b>8%</b>
Return on average equity	18%	18%	17%	13%	15%	13%	23%	18%	14%	<b>10%</b>

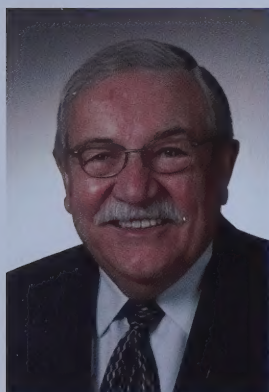


Net earnings for 2005 are \$2.5 million lower than last year, however 2004 earnings included \$2 million gain on sale of capital assets. This year marks the 37th consecutive year of profit.

Shareholders equity has also increased for the 37th consecutive year. Last year's equity was boosted by the infusion of \$12 million of capital from the exercise of options.

The Directors declared the 13th consecutive increase in dividends to 15 cents per share payable on January 13, 2006 to shareholders of record on December 2, 2005.

## To our Shareholders



**John Buhler,**  
*Chairman*

**T**he good news is that your Company just completed its thirty seventh consecutive year of profit and equity increase.

Unfortunately profits are down from last year, as we are still dealing with the effects of the stronger Canadian dollar, the steel price increases and the impact of the Mad Cow Disease. Last year, we had an additional \$2 million of profit from the sale of capital assets, therefore, the drop in income from operations is down by only \$473,000. With four

consecutive quarters of improvement in gross margin, we should soon be back to net earnings growth.

The Company invested \$3.3 million in development of new products and \$7.5 million in new equipment and facilities. These investments will contribute towards future growth of revenue and earnings.

I am now 72 years old and don't feel a day over 60, so I expect to be around for a few more years. In spite of all the challenges, I enjoy going to work every day. I have been giving up more and more of my day to day responsibilities and spending more time traveling, visiting dealers and distributors in North America and off shore.

I continue to hold about 56% of the stock of the Company and expect to reduce this ownership by making small quantities of shares available on the open market from time to time. It is my intention to keep my ownership over 50%. I like the dividend cheque each year and I would like to thank the management for making the increased dividends possible. The employees own approximately 20% of the outstanding shares and they work hard to ensure that the Company has the ability to continue with the dividend increases.

Congratulations to our management team and all of our employees who take so much pride in the success and the future of their Company.

Thank you.

A handwritten signature in blue ink, appearing to read 'John Buhler'.

**John Buhler,**  
*Chairman & CEO*

## Management Discussion & Financial Analysis



**Craig Engel,**  
*President*

**F**iscal 2005 began strong. Our first and second quarter results showed increasing sales and improving gross margins. During the third and fourth quarters, our gross margins continued to improve, but our sales did not meet expectations. Some of the sales reductions were due to the continued weakening US dollar. As 75% of our revenues are based in US

currency, the 10-cent further decline in the US dollar made our top line goals harder to achieve.

Overall, our Buhler Manufacturing products showed the strongest increase in business over the past 12 months, in spite of the declining US dollar. Sales of our short line products rose almost 9% compared to the previous year. This has given us the confidence that our pricing strategy during last year's volatile steel prices was an effective way of balancing price competitiveness and profitability. We now focus on continuing to increase our profitability while

we return to our more traditional "slow and steady" sales growth.

Our tractor business had a year of mixed reviews. Our reported sales in North America were reduced for two reasons: declining US dollar and reduced demand. The reduced demand was, in part, due to the delayed launch of our new high horse power tractor series (435 to 535 horse power models), which is replacing our very popular 425 horse power model. Customer anticipation of the arrival of the new series curtailed orders of the 425 horse power model until the new product was released in September 2005. As we begin the delivery of these new models, we will focus on regaining our position in the North American marketplace with our new and expanded series of tractors, now ranging from 145 hp to 535 horse power. This range allows us to meet the needs of the largest farms in the world.

Our consolidated sales outside North America continued to rise in Fiscal 2005. This year, our sales outside North America increased to over 15% of our total revenue. Over the past 3 years, we learned it is possible to conduct business outside North America in a safe, financially secure and sustainable manner. As a result, we are planning to increase the export sales of all our products to 30% of our total revenue. This will serve as another form of stability for our Company, as different markets around

# Management Discussion & Financial Analysis

the world typically follow different cycles.

Another accomplishment of the year was the seamless introduction of our new Chief Financial Officer, Ossama AbouZeid. We appreciate his energy and interest in our industry and his immediate contribution to our executive group. You have our commitment that we will work to ensure future successions are as seamless to our shareholders as this one has been.

Please refer to the tables following for specific discussions of our financial performance.

## Looking Forward

Assuming steel prices and the US dollar have stabilized, we expect Fiscal 2006 to have flat revenue and a slight increase in gross margin. Continued lean selling and administration expense and our focus to reduce inventory will ensure that we maintain a balance sheet, which allows us to take advantage of accretive acquisition opportunities as they arise.

During Fiscal 2006, we will continue our commitment to keep our products modern and competitive in the marketplace by maintaining our history of purchasing the most modern manufacturing equipment possible. As in the past, our product improvements will continue to be designed to improve the "value" of our products in order to provide high value and price competitive products for the long term.

In the upcoming year, our Company will continue to focus on three goals: improving the cost, quality and delivery of our products. We feel these fundamental goals will not only improve our Company's ability to grow, but more importantly will improve our Company's financial performance as we grow.

Craig Engel,

President,  
November 25, 2005

## Risks

Management considers fluctuations in commodity prices and fluctuations in the Canadian dollar versus the US dollar to be a normal part of conducting business in this industry.

Going forward, the Company considers the degree of risk to be greater until the exchange rates stabilize.

## Corporate Governance

We have continued to update our disclosure controls and policy to ensure compliance with all the regulatory requirements in effect and good governance practices.

Complete governance details are described in the Annual Information Form and Proxy Circular.

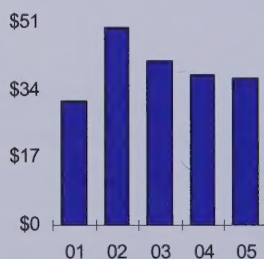
## Sales and Growth (millions)



Revenue is down by 1.8% to \$202 million compared with \$206 million last year. We had forecast flat revenue for 2005, but had not anticipated a drop in revenue. Core products continue to experience sales increases in areas which are not as affected by BSE (Mad Cow

Disease). We are forecasting flat revenue for 2006.

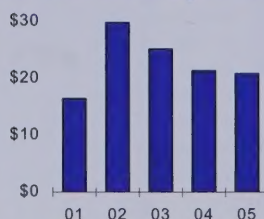
## Gross Profit (millions)



Gross profit decreased to \$37.0 million (18.3% of revenue) compared with \$37.6 million (18.2% of revenue) last year. The drop in gross profit is a combination of the continuing weak US dollar and the increases in the price of steel. Last year, we had forecast a gross margin

of 16 - 18% and we are pleased that we were able to exceed our high forecast as a result of four consecutive quarters of improved gross margin.

## Income from Operations (millions)

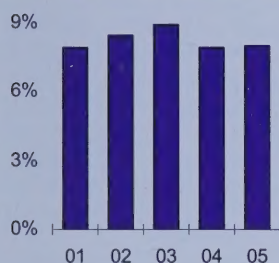


Operating income of \$20.8 million (10.3% of revenue) is down slightly from last year's \$21.3 million (10.3% of revenue). Last year, we forecast that income from operations would remain flat or slightly lower until the issues of the volatility in

the exchange rate, the Mad Cow crisis and the steel costs stabilized. We are confident that some of these issues are behind us and we expect flat to slightly improved operating income in year 2006.

# Management Discussion & Financial Analysis

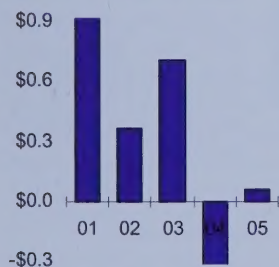
## Selling & Administration Expense (% of Revenue)



Selling and administration expense as a percentage of revenue went up slightly to 8.0% compared with 7.9% last year and below the five year average of 8.2%. Selling and administration expense was \$16.2 million compared with \$16.3 million last year.

Management has been able to control this expense at a time when restraint is very important. Last year, we forecast that we could hold this expense at 8% and management met this target in spite of lower than expected revenue.

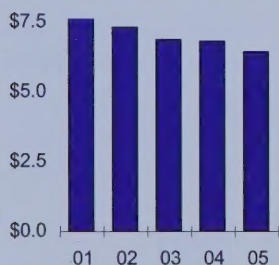
## Net Interest Expense (millions)



We hoped that we could report another year with net interest income, but due to the cost of carrying higher than anticipated inventory levels, we incurred a nominal interest expense of \$62,000. Once we have reduced the inventory, we should again see a net interest income

for Fiscal 2006.

## Amortization Expense (millions)



Amortization expense of \$6.4 million is down from last year's \$6.8 million and will continue to reduce in future years until we make some major equipment purchases. The Company has purchased \$89 million in capital assets over the past 10 years. The Company follows the

practice of replacing obsolete equipment with state of the art equipment.

## Research and Development Expense

The Company continued with its goal and commitment to keep its products modern and competitive in the market place. This year's R&D expense of approximately \$3.3 million is expected to continue in the future. (\$2.9 million last year).

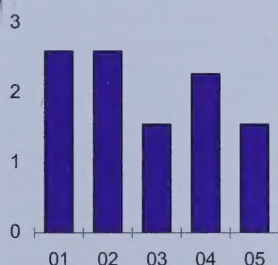
## Net Earnings (millions)



Net earnings decreased by 20.6% to \$9.6 million (\$0.38 per share on an average of 25.0 million shares) compared with \$12.0 million (\$0.50 per share on an average of 24.3 million shares) last year. Last year's earnings included \$2.0 million earned from the sale of

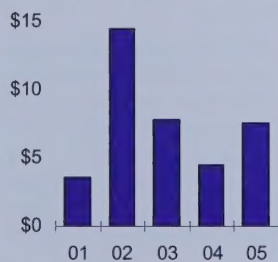
capital assets compared with \$0.1 million this year.

## Inventory Turns



High inventory levels at year end have impacted this ratio and management is committed to reducing inventory to more normal levels during Fiscal 2006. Inventory turns decreased to 1.6 compared with 2.3 last year.

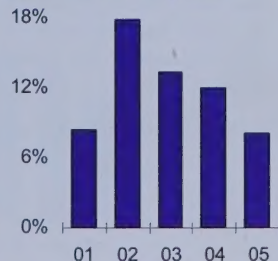
## Asset Purchases (millions)



Over the past 10 years, the Company has invested \$89 million in capital assets. This includes the purchase of the tractor factory in the year 2000 and the Fargo and Saskatoon factories in the year 2002. Capital expenditures for other years were mostly for new equipment. The Company

invests in state of the art equipment in order to maintain an efficient operation. The Company will continue, on average, to invest the equivalent of the annual amortization on new equipment.

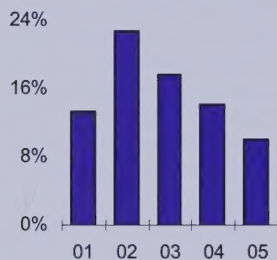
## Return on Capital



Return on capital of 8% is down from last year's 12% and lower than our 5 year average of 12.9%. ROC is calculated by dividing the earnings before interest and taxes by the sum of bank debt, long term debt, leases and total equity. The Company has no leases.

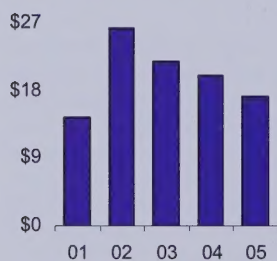
# Management Discussion & Financial Analysis

## Return on Equity



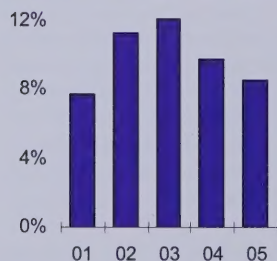
Return on equity of 10% is down compared with last year's 14% and well below our five year average of 15.6%. The increase in share capital from \$17.9 million to \$30 million made it difficult to achieve a higher ratio. We expect this ratio to remain flat for 2006.

## EBITDA (millions)



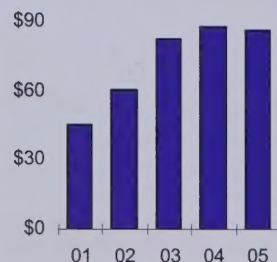
EBITDA of \$17.3 million is down from last year's \$20.0 million and down from the 5 year average of \$20.0 million. We had projected lower EBITDA for 2005, but did not expect the reduction to be this great. We feel confident this figure will improve in Fiscal 2006.

## EBITDA (as a percentage of revenue)



EBITDA as a percentage of revenue now stands at 9%, down from last year's 10% and below the 5 year average of 10%. We expect to see a slight improvement in this ratio for Fiscal 2006.

## Liquidity, Working Capital (millions)



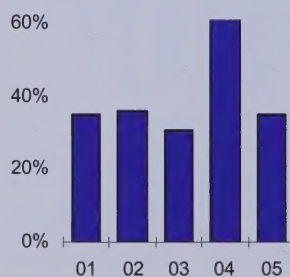
Working capital is down slightly to \$86 million compared with \$87 million last year. We expect to see a slight improvement in working capital for Fiscal 2006.

## Net Cash Flow (millions)



The Company generated cash flow of \$16 million compared with \$19 million last year. Cash flow is lower than our 5 year average of \$18 million. Cash flow is the sum of net after tax earnings, plus amortization.

## Cash Flow (as a percentage of debt)

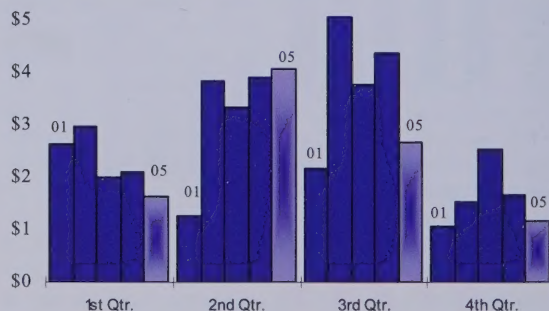


Cash flow as a percentage of debt has decreased to 35% compared with 63% last year. This chart measures the percentage of debt that can be paid with one year's cash flow. The Company can now retire 35% of its' total debt with one year's cash flow.

## Quarterly Net Earnings Results (000's)

	2001	2002	2003	2004	2005
1st Q	\$ 2,625	\$ 2,950	\$ 1,985	\$ 2,093	\$ 1,647
2nd Q	1,258	3,831	3,336	3,915	4,078
3rd Q	2,150	5,059	3,782	4,361	2,670
4th Q	1,082	1,520	2,527	1,680	1,171
Total	\$ 7,115	\$13,360	\$11,630	\$12,049	\$9,566

## Net Quarterly Income (millions)



The Company has now completed 128 consecutive quarters of profit. Next year's quarterly earnings are expected to remain flat.

# Management's Responsibility For the Financial Statements

The consolidated financial statements of Buhler Industries Inc. were prepared by management in accordance with accounting principles generally accepted in Canada applied on a consistent basis. The significant accounting policies, which management believes are appropriate for the Company, are described in note 1 to the financial statements. The financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

Management is responsible for the integrity and objectivity of the financial statements. Estimates are necessary in the preparation of these statements and, based on careful judgments, have been properly reflected. Management has established systems of internal control, which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee of the Board is responsible for reviewing the annual consolidated financial statements and reporting to the Board, making recommendations with respect to the appointment and remuneration of the Company's Auditors and reviewing the scope of the audit.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws and maintains proper standards of conduct for its activities.

*Ossama AbouZeid* *Larry Schroeder*

Ossama AbouZeid, Ph. D., MBA  
Chief Financial Officer  
November 25, 2005

Larry Schroeder  
Vice President

# Auditor's Report

To The Shareholders of Buhler Industries Inc.

We have audited the consolidated balance sheet of Buhler Industries Inc. as at September 30, 2005 and 2004 and the consolidated statement of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

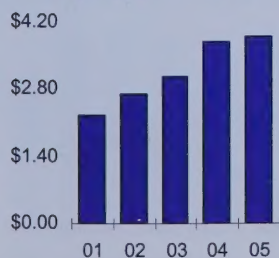
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Manitoba  
November 25, 2005

*Gislaon Targownik Peters.*

Gislaon Targownik Peters  
Certified General Accountants

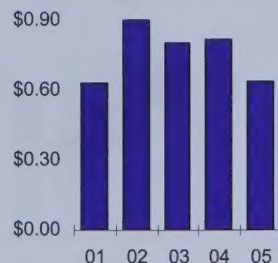
**Equity** (per share)



**Pre Tax Earnings** (millions)



**Net Cash Flow** (cents per share)



## Consolidated Statements of Earnings

For the years ended September 30 (\$000's)

	2005		2004	
<b>Revenue</b>	<b>\$ 202,319</b>		<b>\$ 206,130</b>	
Cost of goods sold	<u>165,275</u>		<u>168,529</u>	
<b>Gross Profit</b>	<b>37,044</b>	18.3%	<b>37,601</b>	18.2%
Selling & administration expenses	<u>16,206</u>	8.0%	<u>16,290</u>	7.9%
<b>Income from Operations</b>	<b>20,838</b>	10.3%	<b>21,311</b>	10.3%
Gain on disposal of assets	(119)		(2,010)	
Interest expense (income)	62		(328)	
Amortization	6,411		6,812	
Research and development costs	3,342		2,903	
Non-controlling interest	<u>333</u>		<u>378</u>	
<b>Net Earnings before Taxes</b>	<b>10,809</b>	5.3%	<b>13,556</b>	6.6%
Provision for Income Taxes (note 10)	<u>1,243</u>		<u>1,507</u>	
<b>NET EARNINGS</b>	<b>\$ 9,566</b>	4.7%	<b>\$ 12,049</b>	5.8%

## Consolidated Statements of Retained Earnings

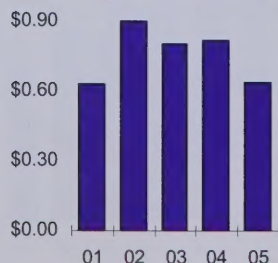
For the years ended September 30 (\$000's) except per share amounts

<b>Retained Earnings beginning of year</b>	<b>\$ 62,047</b>	<b>\$ 52,988</b>
Net earnings for the year	9,566	12,049
Dividends	<u>(3,500)</u>	<u>(2,990)</u>
<b>Retained Earnings end of year</b>	<b>\$ 68,113</b>	<b>\$ 62,047</b>

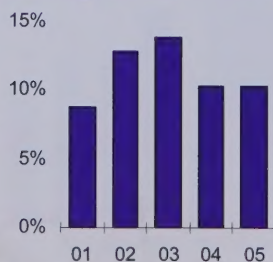
### Earnings per share

Basic	<b>\$ 0.38</b>	<b>\$ 0.50</b>
Fully diluted	<b>\$ 0.38</b>	<b>\$ 0.50</b>

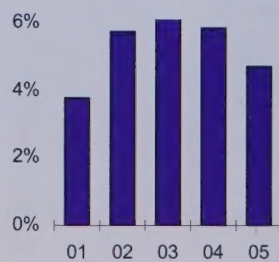
**Earnings** (cents per share)



**Operating Income** (% of Revenue)



**Net Earnings** (% of Revenue)



# Consolidated Balance Sheets

For the years ended September 30 (\$000's)

2005

2004

## ASSETS

### Current Assets

Cash	\$ -	\$ 15,360
Accounts receivable	37,397	35,091
Inventories (note 2)	105,979	73,762
Prepaid expenses	741	771

### Total Current Assets

144,117 124,984

Property plant and equipment (note 3)	39,156	38,335
Future income taxes (note 10)	3,048	3,552
Investments - at cost	191	173

### Total Assets

\$ 186,512 \$ 167,044

## LIABILITIES AND SHAREHOLDERS' EQUITY

### Current Liabilities

Bank indebtedness (note 4)	\$ 17,129	\$ -
Account payable and accrued liabilities	37,682	33,059
Income taxes payable	-	1,234
Current portion of long term debt	3,276	3,277

### Total Current Liabilities

58,087 37,570

Advances from related party (note 5)	2,583	823
Long term debt (note 7)	22,410	25,770

### Total Liabilities

83,080 64,163

Non-controlling interest (note 8)	5,319	10,834
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## SHAREHOLDERS' EQUITY

Share capital (note 12)	30,000	30,000
Retained earnings	68,113	62,047

### Total Shareholders' Equity

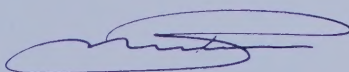
98,113 92,047

### Total Liabilities and Equity

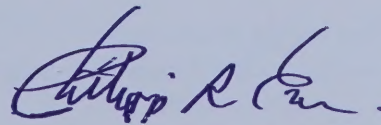
\$ 186,512 \$ 167,044

Approved on behalf of the Board:

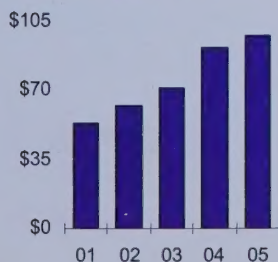
Director:



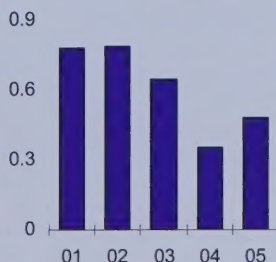
Director:



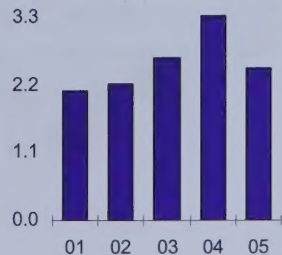
Total Equity (millions)



Debt to Equity (ratio:1)



Working Capital (ratio : 1)



# Consolidated Statement of Cash Flows

For the years ended September 30 (000's)

	2005	2004
<b>Cash provided by (used in) operating activities</b>		
Net earnings	\$ 9,566	\$ 12,049
Add (deduct) non-cash items		
Amortization	6,411	6,812
Gain on disposal of assets	(119)	(2,010)
Gain on foreign exchange	(2,009)	(1,233)
Future income taxes	504	(1,172)
	<u>14,353</u>	<u>14,446</u>
Net change in non-cash working capital balances*	<u>(31,104)</u>	<u>27,031</u>
	<u>(16,751)</u>	<u>41,477</u>
<b>Investing activities</b>		
Purchase of capital assets, net of investment tax credits	(7,515)	(4,470)
Proceeds on sale of capital assets	401	4,792
Investments	(18)	2
	<u>(7,132)</u>	<u>324</u>
<b>Financing activities</b>		
Issuance of share capital	-	12,120
Repayment of long term debt	(3,360)	(3,628)
Decrease in non-controlling interest	(5,515)	(6,260)
Advances (repayment) from related party	1,760	(10,356)
Dividends paid	(3,500)	(2,990)
	<u>(10,615)</u>	<u>(11,114)</u>
<b>Foreign exchange gain on cash held in foreign currency</b>	<u>2,009</u>	<u>1,233</u>
<b>Net cash provided (used) in the year</b>	<u>(32,489)</u>	<u>31,920</u>
<b>Bank balance (debt), beginning of year</b>	<u>15,360</u>	<u>(16,560)</u>
<b>Bank balance (debt), end of year</b>	<u>\$ (17,129)</u>	<u>\$ 15,360</u>
<b>*Net change in non-cash working capital balances is comprised of:</b>		
Accounts receivable	\$ (2,306)	\$ 5,603
Inventories	(32,217)	16,733
Prepaid expenses	30	312
Accounts payable, accrued liabilities and taxes payable	3,389	4,383
<b>Net cash provided (used)</b>	<u>\$ (31,104)</u>	<u>\$ 27,031</u>

# Notes to Consolidated Financial Statements

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of consolidation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the accounts of the Company and all of its subsidiaries, including a 50% joint venture interest in Bradley Steel Processors Inc., which is accounted for using proportionate consolidation.

### (b) Inventories

Inventories are stated at the lower of cost (first-in, first-out basis) and net realizable value. It is the Company's policy to record provisions for obsolete and slow moving inventory based on management estimates. These estimates are necessarily subject to a degree of measurement uncertainty.

### (c) Capital assets and amortization

Capital assets are recorded at cost less accumulated amortization and related investment tax credits. Amortization is provided over the estimated useful lives using the following rates and methods:

Buildings	4 to 5%	Straight line
Equipment	20 to 30%	Declining balance
Computers	30%	Declining balance
Software and tools	100%	Year acquired

### (d) Foreign currency translation

The accounts of the United States subsidiaries, which are considered integrated foreign operations, have been translated into Canadian dollars on the following basis:

- 1) monetary assets and monetary liabilities at the year-end rates of exchange;
- 2) non-monetary assets and related amortization at rates prevailing at dates of transactions;
- 3) revenue and expense items, other than amortization, at the average rate for year.

The resulting currency translation gains and losses are included in earnings.

### (e) Financial instruments

#### Foreign exchange and interest rate risk

These are the risks to the Company's earnings that arise from fluctuations in interest rates and foreign exchange rates. The Company does not use any derivative financial instruments to reduce its exposure to interest rate or foreign exchange rate risk.

#### Other risks

The Company is exposed to credit risk on its accounts receivable. Also, as part of the Company's risk management, the Company will assume some risk in insuring some of its widely held assets.

#### Fair value

The carrying values of financial assets and financial liabilities are considered to approximate fair value unless otherwise disclosed.

2. INVENTORIES (000's)	2005	2004
Land for development	\$ 2,451	\$ 2,482
Finished goods	51,748	36,126
Work in process	5,374	4,797
Raw materials	46,406	30,357
	<u>\$ 105,979</u>	<u>\$ 73,762</u>

3. CAPITAL ASSETS (000's)			2005	2004
	Cost	Accum. Amort.	Net Book Value	Net Book Value
Land	\$ 4,569	\$ 0	\$ 4,569	\$ 4,255
Buildings	30,617	11,280	19,337	18,313
Equipment	51,155	37,157	13,998	14,122
Computers	4,587	3,396	1,191	1,555
Software & tools	<u>3,079</u>	<u>3,018</u>	<u>61</u>	<u>90</u>
	\$ 94,007	\$ 54,851	\$ 39,156	\$ 38,335

## 4. BANK INDEBTEDNESS

The Company has available a financing facility with the Bank of Montreal in the amount of \$50,000,000. The credit facility is secured by a mortgage, debenture, general security agreement and assignment of receivables and inventory. All interest rates are at prime or less.

## 5. ADVANCES FROM RELATED PARTY

The advances from related party is from the majority shareholder, holding 56% of the shares of the Company. Throughout the year, the majority shareholder advances or borrows funds from the Company with interest calculated at bank prime. The advance has no specific terms of repayment. The Company has provided a letter of credit for \$665,000 (2004 - \$665,000) to secure a line of credit for an entity in which the majority shareholder has a significant influence.

## 6. RELATED PARTY TRANSACTIONS (000's) 2005 2004

### Companies Controlled by Officers or Family Members

Accounts receivable	\$ 49	\$ 65
Revenue	240	599

### Capital Asset Disposals

Proceeds on disposition	0	2,675
Gain (Loss)	0	1,206

### Enterprises Influenced by Controlling Shareholder

Revenue	7	6
Capital expenditures / repairs and maintenance	0	172

### Capital Asset Disposal

Proceeds on disposition	0	160
Book value	0	49
Gain (Loss)	0	111

### Controlling Shareholder

Fees paid for management services	300	170
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### Immediate Family Members of Controlling Shareholder

Fees paid for management services	118	60
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All transactions with related parties are recorded at the exchange amount agreed to by the related parties.

7. LONG TERM DEBT (000's)	2005	2004
Long term debt	\$ 25,686	\$ 29,047
Current portion	3,276	3,277
Long term portion	<u>\$ 22,410</u>	<u>\$ 25,770</u>

The unsecured, interest free, Industry Canada loan is repayable in 120 equal monthly installments of \$265 commencing July 31, 2003. The U.S. Bank loan (State of North Dakota interest free loan) is repayable over 10 years and is secured by Company assets. \$3,276 is repayable annually over the next 5 years. In the event of default of the Industry Canada Loan, the entire balance then outstanding shall, after the expiry of 30 days, bear interest and become due and payable.

# Notes to Consolidated Financial Statements

## 8. NON-CONTROLLING INTEREST

During the 1999 fiscal year, Buhler Industries Inc. created a controlled manufacturing partnership operating as Buhler Manufacturing, through which a significant portion of the manufacturing activity is now conducted. The partnership was formed to optimize the organizational structure and efficiency of the Company.

The non-controlling interest represents a partner's interest in the assets, liabilities & income in the partnership. The partnership's financial activities have been accounted for by consolidation. The Company has provided a \$20 million dollar guarantee, for a fee, to the Bank of Montreal to secure a loan to the new partner. These proceeds were used by the new partner to invest in the partnership.

9. INTEREST PAID (000's)	2005	2004
Operating loan	\$ 681	\$ 411
Long term debt	<u>0</u>	<u>0</u>
	\$ 681	\$ 411

10. INCOME TAXES (000's)	2005	2004
At applicable statutory rate	\$ 4,566	\$ 5,155
Losses utilized during the year	(1,125)	(111)
Manufacturing Profits deduction	0	(351)
Future taxes		
Loss carry forward	618	(393)
Timing differences	<u>(114)</u>	<u>(779)</u>
Total future taxes	504	(1,172)
Tax credits and other	<u>(2,702)</u>	<u>(2,014)</u>
Income tax provision	\$ 1,243	\$ 1,507

### Loss Carried Forward & Tax Credits

The Company has non-capital loss carry forwards of \$3, expiring in 2015, that are available to be applied against certain taxable income in future years. The potential tax benefits that will result from claiming these have been recognized. Income taxes paid (recovered) during the year were \$2,728 (2004-\$3,069.)

Future income taxes are recorded to reflect the timing differences arising from deduction of warranty costs for income tax purposes and from the amounts of amortization provided in the year compared to the allowances deducted for income tax purposes. Future tax benefits are composed of a liability of \$752 relating to amortization of capital assets and a benefit of \$3,800 in respect of provisions for warranty. The Company has income tax recoverable of \$774 included in accounts receivable.

## 11. SEGMENTED INFORMATION (000's)

The Company has organized its business between agricultural and non-agricultural operations due to the differences in the products and approaches in marketing and manufacturing in both segments. The agricultural equipment segment produces a wide variety of agricultural equipment, whereas the non-agricultural operations consist primarily of custom metal fabrication.

	2005		2004	
	Canada	US	Canada	US
Revenue	\$ 181,933	\$ 20,386	\$ 189,762	\$ 16,368
Earnings	8,935	631	11,779	270
Capital Assets	29,690	9,466	32,093	6,242
	Ag	Non-Ag	Ag	Non-Ag
Revenue	\$ 195,407	\$ 6,912	\$ 198,130	\$ 8,000
Interest revenue	594	25	568	175
Interest expense	678	3	405	10
Earnings	8,770	796	9,499	2,550
Assets	167,505	19,007	156,062	10,982

Included in Canadian revenue are export sales, primarily to the United States, of \$135 million (2004 - \$145 million). The accounting policies of the segments are the same as described in the note for significant accounting policies. The Company accounts for inter-segment sales at current market prices. Revenue from the top two customers was \$15 million and \$14 million, both in the agricultural segments.

## 12. CAPITAL STOCK AND OPTIONS (000's)

Authorized, an unlimited number of common shares.

	2005		2004	
	No. of Shares	\$	No. of Shares	\$
Issued as at Sept. 30	25,000	\$30,000	25,000	\$30,000
Options exercised	0	0	2,000	\$12,120

There are no options outstanding as of September 30th, 2005.

## 13. DEFERRED PROFIT SHARING PLAN

In 1995, the Company established a Deferred Profit Sharing Plan for its employees. The Company contributes funds to the plan annually as determined by the Board of Directors, subject to certain maximum limits established by the plan. Contributions are used to purchase common shares of the Company for the employees from the plan trust. In 2005, the Company contributed \$150,000 to the plan (2004-\$200,000). The plan trust owns approximately 1.1 million Buhler shares.

# Company Profile

**B**uhler Industries Inc. was established in 1933 and operated as Standard Gas Engine Works until the Company was purchased by John Buhler in 1969. The Company has since grown to become a significant player in the farm equipment industry.

Today, the Company operates ten modern manufacturing plants and eight distribution centers totaling over 1.6 million square feet of facilities and employing over 800 people. The Company remains strongly committed to its core business as a manufacturer of a wide range of agricultural equipment marketed overseas and throughout North America under the brand names:

“Buhler”, “Allied”, “Farm King”, “Inland” and “Buhler Versatile”.

In 2000, the Company purchased the only tractor manufacturing plant in Canada. Ranging from 145 hp to 535 hp, the tractors became the perfect complement to the Company’s long standing portfolio of short line farm equipment, which includes grain augers, 3-point hitch attachments, front end loaders and haying equipment.

## Audit Committee

Philipp R. Ens, Chairman  
Albert Appelt  
Eugene Demkiw  
Allan L.V. Stewart

## Legal Counsel

Perlov Stewart Lincoln  
Winnipeg, Manitoba

## Exchange Listing

The shares of Buhler Industries Inc. are listed on the Toronto Stock Exchange and trading under the symbol “BUI”.

## Corporate Banker

Bank of Montreal  
Winnipeg, Manitoba

## Cusip Number

119 918 100

## Transfer Agent

Computershare Trust Company of Canada  
Calgary, Alberta

## Corporate Office

1201 Regent Avenue West,  
Winnipeg, Manitoba, R2C 3B2  
Ph: (204) 661-8711 Fax: (204) 654-2503  
Web site: [www.buhler.com](http://www.buhler.com)

## Auditors

Gislason Targownik Peters  
Winnipeg, Manitoba

## Annual Meeting

The annual meeting of shareholders will be held on Saturday, January. 28th, 2006, 11:00 AM at the Club Regent Casino Hotel, 1415 Regent Avenue West, Winnipeg, MB.

# Directors, Officers and Senior Management

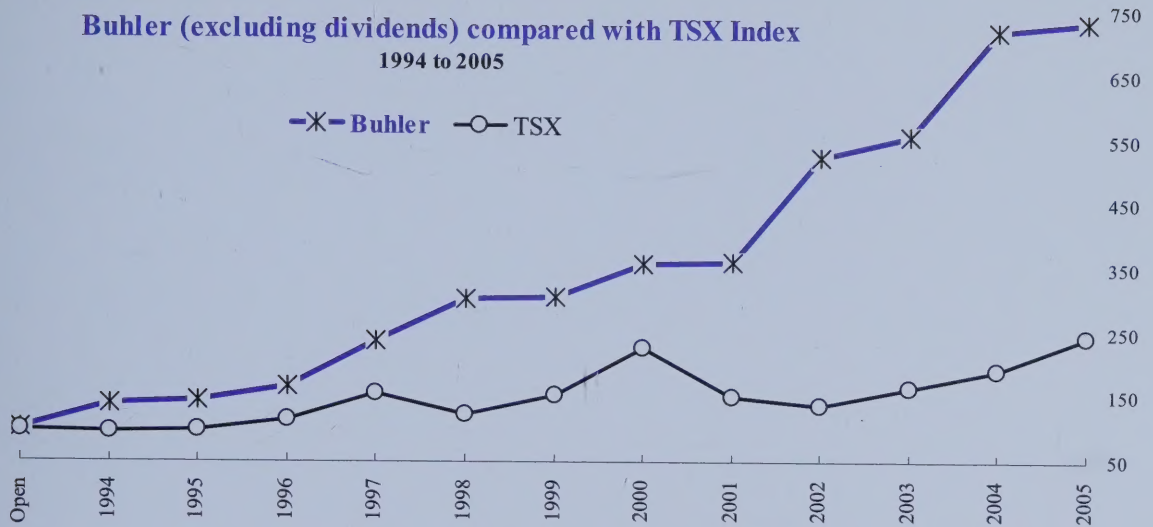
Name	Office	Principal Occupation
John Buhler	Chairman/Officer	CEO, Buhler Industries Inc.
Bonnie Buhler	Director	Highland Park Financial Inc.
Craig Engel, <i>P.Eng.</i>	Director/Officer	President, Buhler Industries Inc.
Ossama AbouZeid <i>Ph. D., MBA</i>	Director/Officer	Secretary and CFO, Buhler Industries Inc.
Allan Stewart, <i>B.A., LL.B.</i>	Director	Lawyer, Perlov Stewart Lincoln
Philipp Ens	Director	Chairman, Triple E Canada Inc.
Bert Appelt	Director	President, Appelt Jewellers Ltd.
Eugene Demkiw	Director	Retired CEO, Ezee-on Manufacturing Ltd.
Larry Schroeder	Officer	Vice President Marketing, Buhler Industries Inc.
Grant Adolph, <i>P.Mgr.</i>	Management	COO, Buhler Industries Inc.
Eric Allison	Management	Manager, OEM Division
Helen Bergen, <i>C.H.R.P.</i>	Management	Manager, Human Resources, Buhler Industries Inc.
Andrey Gornik, <i>P.Eng.</i>	Management	Operations Manager, Inland Division
Rick Kneeshaw, <i>C.I.M.</i>	Management	Operations Manager, Morden Division
Min Lee, <i>I.S.M.</i>	Management	Chief Information Officer, Buhler Industries Inc.

# Ten Year Summary

Year Ended September 30,	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
	In thousands of Canadian dollars (except per share amounts)									
SUMMARY OF OPERATIONS										
Revenue	66,517	85,375	89,194	79,961	116,700	187,633	232,619	181,162	206,130	202,319
Cost of goods sold	45,229	58,315	59,951	53,754	86,398	156,223	183,134	139,929	168,529	165,275
Gross profit	21,288	27,060	29,243	26,207	30,302	31,410	49,485	41,233	37,601	37,044
Selling & admin. expense	9,081	10,747	11,823	11,264	13,513	14,883	19,758	16,135	16,290	16,206
Income from operations	12,207	16,313	17,420	14,943	16,789	16,527	29,727	25,098	21,311	20,838
Gain on sale of capital assets	-	-	(727)	(346)	(1,039)	(733)	(134)	(726)	(2,010)	(119)
Interest expense (Income)	679	457	458	434	671	1,032	369	703	(328)	62
Amortization	3,685	4,809	4,808	5,126	5,520	7,684	7,339	6,894	6,812	6,411
Research & development exp.	498	645	552	577	1,043	1,895	2,850	3,683	2,903	3,342
Non-controlling interest	-	-	-	224	903	847	809	267	378	333
Net Earnings before taxes	7,345	10,402	12,329	8,928	9,691	5,802	18,494	14,277	13,556	10,809
Income taxes	2,212	4,271	5,216	3,131	2,393	(1,313)	5,134	2,647	1,507	1,243
NET EARNINGS	5,133	6,131	7,113	5,797	7,298	7,115	13,360	11,630	12,049	9,566
CASH FLOW SUMMARY										
Capital asset purchases	9,552	12,253	5,917	5,960	17,278	3,593	14,546	7,854	4,470	7,515
Long-term debt incurred	-	1,201	-	2,417	31,656	-	-	-	-	-
Reduction of long-term debt	1,689	-	7,696	-	-	2,894	795	1,657	3,628	3,360
Dividends Paid	1,097	1,432	1,703	1,992	2,209	2,435	2,584	2,760	2,990	3,500
Net cash flow	8,573	10,940	11,921	10,923	12,818	14,799	20,699	18,524	18,861	15,977
Cash (Bank indebtedness)	(1,576)	(2,724)	(2,348)	(4,043)	(12,040)	(9,939)	(14,258)	(16,560)	15,360	(17,129)
BALANCE SHEET SUMMARY										
Acc'ts rec, cash & ppd. exp.	13,386	12,352	12,996	13,793	46,789	27,277	40,094	41,777	51,222	38,138
Inventory	13,188	16,586	19,014	20,610	52,846	60,179	70,361	90,495	73,762	105,979
Total current assets	26,574	28,938	32,010	34,403	99,635	87,456	110,455	132,272	124,984	144,117
Total assets	54,341	60,716	61,139	74,843	149,073	127,531	156,305	178,281	167,044	186,512
Total current liabilities	16,108	16,131	13,004	14,195	54,038	41,783	49,860	49,742	37,570	58,087
Total short and long term debt	10,034	11,246	5,741	7,587	47,240	42,245	57,743	60,409	29,870	45,398
Total liabilities	22,530	23,219	16,349	27,516	97,414	74,089	94,307	107,413	74,997	88,399
Total shareholders equity	31,811	37,497	44,790	47,327	51,659	53,442	61,998	70,868	92,047	98,113
Shares o/s (avg. in millions)	23.0	23.9	24.9	24.5	24.2	23.5	23.0	23.0	24.3	25.0
Working capital	10,466	12,807	19,006	20,208	45,597	45,673	60,595	82,530	87,414	86,030
DATA PER COMMON SHARE										
Revenue	\$ 2.89	\$ 3.57	\$ 3.57	\$ 3.27	\$ 4.82	\$ 7.98	\$ 10.11	\$ 7.88	\$ 8.47	\$ 8.09
EBITDA	0.51	0.66	0.71	0.59	0.66	0.62	1.14	0.95	0.82	0.69
Price to EBITDA	3.3	3.6	4.3	5.2	5.4	5.8	4.6	5.9	8.7	10.6
EBIT	0.35	0.45	0.51	0.38	0.43	0.29	0.82	0.65	0.54	0.43
Net earnings	0.22	0.26	0.29	0.24	0.30	0.30	0.58	0.51	0.50	0.38
Price to earnings	7.44	9.32	10.68	12.91	11.85	11.90	9.04	11.02	14.54	19.21
Cash flow	0.37	0.46	0.48	0.45	0.53	0.63	0.90	0.81	0.78	0.64
Dividends Paid	0.05	0.06	0.07	0.08	0.09	0.10	0.11	0.12	0.13	0.14
Closing share price	1.66	2.39	3.05	3.06	3.57	3.60	5.25	5.57	7.20	7.35
Shareholders' equity	1.38	1.57	1.80	1.93	2.13	2.27	2.70	3.08	3.78	3.92
STATISTICAL DATA										
Current ratio	1.6	1.8	2.5	2.4	1.8	2.1	2.2	2.7	3.3	2.5
Int. bearing debt to equity ratio	0.3	0.3	0.1	0.1	0.2	0.2	0.2	0.2	-	0.2
Number of shareholders	1,350	1,600	1,700	1,700	1,600	1,600	1,600	1,600	1,600	1,600
Inventory turnover	3.4	3.5	3.2	2.7	2.8	2.6	2.6	1.5	2.3	1.6
Gross margin (% of revenue)	32%	32%	33%	33%	26%	17%	21%	23%	18%	18%
SG&A (% of revenue)	14%	13%	13%	14%	12%	8%	8%	9%	8%	8%
EBITDA (% of revenue)	18%	18%	20%	18%	14%	8%	11%	12%	10%	9%
Net earnings (% of revenue)	8%	7%	8%	7%	6%	4%	6%	6%	6%	5%
Return on average capital	21%	24%	26%	18%	14%	8%	18%	13%	12%	8%
Return on average equity	18%	18%	17%	13%	15%	13%	23%	18%	14%	10%

# Stock Data

**Buhler (excluding dividends) compared with TSX Index**  
1994 to 2005



## Daily Closing Price

Opened March 25, 1994 at \$1.05  
Closed Dec. 9, 2005 at \$7.30



Year end Sept. 30	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
High	2.10	1.60	1.98	2.54	4.25	3.25	3.74	3.75	5.50	5.92	7.30	7.63
Low	1.05	1.10	1.37	1.70	2.45	2.35	2.70	3.00	3.48	5.20	5.48	7.00
Close	1.40	1.45	1.66	2.39	3.05	3.06	3.57	3.60	5.25	5.57	7.20	7.35
Trading Volume (000's)	1,311	867	1,927	3,015	4,134	2,274	1,092	2,800	1,836	1,321	5,024	1,703



## HIGH HORSEPOWER TRACTORS :: 435 :: 485 :: 535

We designed the new high horsepower tractors to meet the demands of evolving farming practices. Our concept was to balance operator comfort and tractor performance. This new class of tractor was engineered from the ground up using heavy-duty components and a massive frame ensuring structural integrity even under extreme conditions.

This is just one of the ways Buhler Industries Inc. continues to diversify in order to stay profitable and enhance shareholder value.

**bühler**

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